

ANNUAL REPORT REQUIRED BY THE TECHNICAL  
AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 1996.

II. Recent Developments

Following passage of the Railroad Unemployment Insurance and Retirement Improvement Act of 1988, the maximum daily benefit applicable to unemployment and sickness payments beginning on or after July 1, 1988, increased to \$30, and is calculated on an indexed basis. Beginning July 1, 1994, the maximum daily benefit increased from \$33 to \$36. The monthly tax base increased from \$840 in calendar year 1994 to \$850 in 1995, and to \$865 in 1996, based on increases in the railroad retirement tier I creditable base. Employer experience has been captured since January 1, 1990, and the first experience-based employer tax rates were calculated for 1991. The pre-October 1985 loans from the Railroad Retirement Account were repaid in their entirety in June 1993.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980's, can put the system into debt. Conversely, significant cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thus adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's 1996 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

#### IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 1996-2006. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

Under all the assumptions, no new loans are needed to finance benefit payments during the projection period. The experience-based contribution rates generate sufficient funds to respond to the different levels and patterns of employment decline assumed. However, under assumption C, there is some likelihood of a small, short-term cash flow problem in fiscal year 1998.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. During the 1991-1993 phase-in to experience-based contribution rates, the balance in the Account increased. The surplus funds in the Account were used to repay the pre-October 1985 loans from the Railroad Retirement Account in their entirety on June 29, 1993. The resulting June 30,

1993, balance <sup>1</sup> in the Account was only slightly above \$250 million. The 1994 system pooled credit was 0.22 percent, down from 5.31 percent in 1993. By June 30, 1994, the balance had dropped to \$226 million, below the level that triggers a system pooled credit.

The average employer contribution rate is below 1.0 percent during 1996 under each employment assumption. The Account balance drops below \$100 million in 1997. A 1.5 percent surcharge is likely under employment assumptions A and B for calendar years 1998-2000 and 2003-2004. Under employment assumption B, there is some likelihood of a 2.5 percent surcharge in calendar year 1999 and a 1.5 percent surcharge in calendar year 2005. Under employment assumption C, a 2.5 percent surcharge is likely for calendar years 1999-2000 and a 1.5 percent surcharge is likely in calendar years 1998, and 2003-2005. The highest average contribution rate needed is under employment assumption C, where it rises to 5.90 percent for calendar year 1999. This is well below the 12 percent maximum rate allowable.

Based on expected budgetary constraints, administrative expenses are assumed to decline in fiscal years 1997-2005, then rise slightly in fiscal year 2006. The 0.65 percent of taxable payroll allocated to the Administration Fund is more than sufficient to finance administrative expenses. When the balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all three employment assumptions, the balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

## V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time.

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<sup>1</sup>The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels, and thereby maintain fund solvency.

**Table 1: Employment Assumptions Used in 1996 Report**

Calendar Year	Average Employment (thousands)		
	A	B	C
1995	264	264	264
1996	258	254	251
1997	251	245	239
1998	247	238	228
1999	243	231	218
2000	239	224	209
2001	235	218	200
2002	231	212	191
2003	227	206	183
2004	224	200	176
2005	220	194	168
2006	216	189	161

Employment assumptions A and B are based on the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. However, to account for the announced reduction in Amtrak employment, these assumptions include a decline in passenger service through 1997. Employment assumption A is the most optimistic of the three employment assumptions. Employment assumption B is intended to provide a "moderate" assumption. Employment assumption C follows the structure of assumptions A and B, except that it projects declines after 1997 in passenger employment and steeper declines in freight employment than employment assumptions A and B.

Employment assumptions A and B assume passenger employment declines from a level of 45,000 in 1995, to 43,000 in 1996 and 41,000 in 1997 and later. Non-passenger employment declines at a constant annual rate (2.0 percent for assumption A and 3.5 percent for assumption B). Employment assumption C assumes that passenger employment declines after 1997 by 500 each year and non-passenger employment declines at a constant rate of 5.0 percent.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
1995	\$61,200	\$850	\$36
1996	62,700	865	36
1997	65,100	890	36
1998	67,800	915	39
1999	70,500	945	39
2000	73,500	980	42
2001	76,500	1,010	42
2002	79,500	1,040	44
2003	83,100	1,080	44
2004	86,700	1,115	47
2005	90,900	1,160	50
2006	95,400	1,210	50

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A  
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
1996	\$6.1	\$68.5	\$9.2	\$120.4	\$0.0	\$120.4	1996	0.94
1997	13.5	66.1	7.2	75.0	0.0	75.0	1997	1.33
1998	51.5	65.8	4.7	65.4	0.0	65.4	1998	3.64
1999	90.5	68.1	6.6	94.4	0.0	94.4	1999	4.05
2000	79.8	68.0	10.8	117.0	0.0	117.0	2000	2.80
2001	46.8	71.0	12.3	105.1	0.0	105.1	2001	1.69
2002	38.3	70.4	12.3	85.3	0.0	85.3	2002	2.18
2003	63.3	72.0	12.7	89.3	0.0	89.3	2003	3.30
2004	83.3	71.7	14.3	115.2	0.0	115.2	2004	3.41
2005	66.4	75.2	15.6	122.0	0.0	122.0	2005	2.13
2006	46.2	77.9	15.5	105.8	0.0	105.8	2006	2.04

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General and the Special Management Improvement Fund.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B  
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
1996	\$6.1	\$68.5	\$9.2	\$120.4	\$0.0	\$120.4	1996	0.94
1997	13.2	73.0	6.8	67.4	0.0	67.4	1997	1.33
1998	52.0	77.4	3.2	45.2	0.0	45.2	1998	3.81
1999	97.7	79.7	4.5	67.7	0.0	67.7	1999	4.70
2000	101.2	78.7	8.5	98.7	0.0	98.7	2000	4.03
2001	74.0	81.0	10.6	102.3	0.0	102.3	2001	2.67
2002	50.7	79.2	10.8	84.6	0.0	84.6	2002	2.32
2003	59.5	80.0	10.9	75.0	0.0	75.0	2003	3.29
2004	82.6	78.9	11.1	89.8	0.0	89.8	2004	3.97
2005	84.3	81.8	12.2	104.5	0.0	104.5	2005	3.38
2006	66.8	83.4	12.6	100.5	0.0	100.5	2006	2.65

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General and the Special Management Improvement Fund.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.



Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C  
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
1996	\$6.0	\$68.5	\$9.2	\$120.3	\$0.0	\$120.3	1996	0.94
1997	12.9	79.3	6.3	60.2	0.0	60.2	1997	1.33
1998	52.0	90.3	2.0	23.9	0.0	23.9	1998	3.96
1999	110.1	91.8	2.2	44.4	0.0	44.4	1999	5.90
2000	128.8	88.8	6.6	91.0	0.0	91.0	2000	5.48
2001	98.2	90.2	9.5	108.5	0.0	108.5	2001	3.55
2002	61.3	87.2	9.9	92.5	0.0	92.5	2002	2.65
2003	59.7	86.6	9.4	75.0	0.0	75.0	2003	3.49
2004	82.6	83.8	8.8	82.6	0.0	82.6	2004	4.56
2005	91.7	85.8	9.6	98.1	0.0	98.1	2005	4.27
2006	78.4	86.6	10.0	99.9	0.0	99.9	2006	3.49

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General and the Special Management Improvement Fund.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account  
(Dollar Amounts in Millions)

Year	<u>Employment Assumption A</u>		<u>Employment Assumption B</u>		<u>Employment Assumption C</u>	
	1.5 Percent		1.5 Percent		1.5 Percent	
	Account Balance	Surcharge Threshold	Account Balance	Surcharge Threshold	Account Balance	Surcharge Threshold
1996	\$127.2	\$100.0	\$126.9	\$100.0	\$126.8	\$100.0
1997	81.9	100.0	74.6	100.0	68.0	100.0
1998	74.2	100.0	55.0	100.0	34.8	100.0
1999	103.8	100.7	77.8	100.0	55.4	100.0
2000	128.1	102.5	110.1	100.0	102.8	100.0
2001	116.7	104.7	113.6	100.0	119.7	100.0
2002	98.6	106.1	97.5	100.0	104.9	100.0
2003	102.6	107.4	87.4	100.0	86.7	100.0
2004	129.1	109.4	102.9	100.0	94.9	100.0
2005	136.5	111.7	117.8	100.0	110.3	100.0
2006	119.5	114.3	112.5	100.6	110.5	100.0

The June 30, 1995 accrual balance was \$184,398,531.65

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.